

EUROPE REMAINS KEY DRIVER BEHIND SUSTAINABLE FINANCE -

STUDY ON SUSTAINABLE INVESTMENT FUNDS BY MORNINGSTAR, ZEB – POWERED BY ALFI

- **Europe holds 83% of global sustainable funds' net assets, reaching almost EUR 2 trillion at the end of 2021, up 71% from 2020**
- **Sustainable fund products reflect 16% of total net assets of funds domiciled in Europe, ahead of the US and Asia, with only 1% and 5% respectively**
- **Luxembourg maintains its market leader position with about a third of the assets managed by sustainable funds in Europe being domiciled there**
- **Equity remains the most important asset class making up 64% of the sustainable fund assets compared to 48% in conventional funds, allowing asset managers to exert a great influence on the ESG efforts of companies**
- **Sustainability strategies such as impact funds are still far outweighed by funds with less ambitious ESG objectives, yet assets in impact funds did increase by 50% in 2021, compared to 2020**
- **At European level, about 44% of net assets were categorised by their managers as Article 8 or Article 9 funds according to the Sustainable Finance Disclosure Regulation (SFDR)**

Europe remains the key driver behind sustainable finance, holding 83% of global sustainable funds' net assets, according to the second annual **European Sustainable Investment Funds Study** by Morningstar and zeb, powered by the Association of the Luxembourg Fund Industry (ALFI). The study found that the net assets in sustainable fund products based on Morningstar's strict definition of sustainability have reached almost EUR 2 trillion at the end of 2021, up 71% from 2020.

This study aims to provide a snapshot on how sustainability objectives and the respective legislative interventions are shaping the fund industry in Europe, and to analyse the role, competitiveness, and positioning of the different domiciles within this dynamically changing environment. It is the second of a series of regularly conducted studies based on an analogous approach to monitor the dynamic development and trends of the European sustainable funds' sector.

Marc-André Bechet, Deputy Director General of ALFI, commented: "Sustainable finance is at a crossroads and 2022 will lead to a moment of truth. While there is a genuine willingness of the asset management industry to meet the challenges of sustainable finance and strong demand from retail and institutional investors alike, the reality is that, so far, funds which pursue one or several environmental objectives have not really been able to show their true credentials. However, companies are now starting to report on the alignment of their activities in line with the Taxonomy Regulation, and for those that do not yet do so, reporting will be required from 2023 and 2024 onwards. Which I believe is a crucial step forward."

Hortense Bioy, Global Director of Sustainability at Morningstar said: "Since its introduction in March 2021, SFDR has acted as a catalyst for product development and innovation in the European sustainable funds space. It will be fascinating to see how regulation continues to shape the landscape. The changes to MiFID II taking effect in August and requiring financial advisers to consider their clients' sustainability preferences have the potential to accelerate adoption of sustainable investments among retail investors. Despite all the concerns about greenwashing, our data shows that investor appetite for ESG and sustainable strategies is still growing."

Dr. Carsten Wittrock, Partner at zeb, added: “Our new study confirms the forecasts we made in our previous edition: the industry’s shift towards sustainability is progressing at high speed despite an unprecedented dynamic geopolitical and regulatory environment. Although there is still quite a long way to go before the full potential of the fund industry in supporting the urgently needed transformation process of the economies toward greater sustainability is unleashed, it is safe to conclude that the trends highlighted will continue – despite the critical discussion about the role and handling of sustainability by individual asset managers, the ongoing need to clarify sustainability factors and their appropriate implementation, and the recent setbacks in tackling climate change due to the tragic conflict in the Ukraine and its drastic consequences not only for the people but also the global economy.

Other topics and findings of the research were:

- **Equity remains the dominating asset class of sustainable funds across all European domiciles** accounting for more than 60% of the sustainable assets managed by funds. Followed by fixed income (20%) and allocation funds (15%) at the end of 2021. This differs significantly compared to the conventional funds' sphere where the share in equity funds accounts for only 48% of the net assets. This disparity in sustainable funds is likely due to the more favourable possibility for engaging in stewardship in influencing companies' behaviour towards sustainability targets.
- **Sustainable passive strategies continue being popular** – at the end of 2021, they made up about 27% of the net assets of the European sustainable fund universe, higher than the 21% observed in the conventional sphere. This compares with passive net assets of about EUR 139 billion in 2019 – an increase of almost 280% compared to only about 25% in the conventional funds sector over the period of 2019 to 2021. It seems that passive management is switching from traditional, plain vanilla approaches to sustainability
- **A marketplace continually dominated by large players** with the high concentration in the asset management industry even higher in the sustainable funds' segment. On average 51% of the net assets in sustainable active funds in Europe was invested in funds launched by the top 20 providers as opposed to only about 43% for conventional funds. In terms of single fund hubs, Luxembourg and Ireland show a strong positioning of the top fund providers in either market. The top 5 asset managers cover approximately 32% of net assets in Luxembourg-domiciled sustainable funds.
- **Closing the gap: what are the roadblocks in the US and Asia:** Despite considerable interest in sustainability in the US, the previous US government's decision to pull out from the Paris Climate Accord likely made investors, shareholders and the regulator move sustainability to the bottom of the agenda. The signature of President Biden in 2021 to re-enter the Climate Agreement is an important step towards a common global goal, although the previous deviation might have made the US lose significant ground in its race towards net zero. Meanwhile in Asia, there is a lack of an ESG framework based on classifications or disclosures that allows for standardisation and benchmarking in markets.

The rapidly growing demand for sustainable investing from society and the asset management industry, supported by regulations, means the market share of sustainable funds will only further increase. Eventually, sustainable funds will become the norm rather than the exception.

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Please get in touch if you would like to speak to ALFI about the study. For the full **European Sustainable Investment Funds Study 2022** [click here](#).

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Notes to editors:

The [Association of the Luxembourg Fund Industry \(ALFI\)](#) is the face and voice of the Luxembourg asset management and investment fund community, championing mainstream, private assets and sustainable investing. ALFI seeks to promote Luxembourg's fund sector internationally, and to cultivate for the benefit of its members a collaborative, dynamic and innovative ecosystem underpinned by the most robust regulatory framework. ALFI's ambition is to empower investors to meet their life goals.

Created in 1988, the Association today represents over 1,500 Luxembourg-domiciled investment funds, asset management companies and a wide range of businesses that serve the sector. These include depositary banks, fund administrators, transfer agents, distributors, legal firms, consultants, tax advisory firms, auditors and accountants, specialist IT and communication companies. Luxembourg is the largest fund domicile in Europe and a worldwide leader in cross-border distribution of funds. Luxembourg-domiciled investment funds are distributed in more than 70 countries around the world. For further information, do not hesitate to consult www.alfi.lu.

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